



U.S. Department of Agriculture  
Office of Inspector General  
Great Plains Region  
Audit Report

Food and Nutrition Service  
Child and Adult Care Food Program  
Analysis of Large Sponsoring Organizations  
Washington, D.C.



**Report No.  
27010-7-KC  
April 2002**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: April 23, 2002

REPLY TO

ATTN OF: 27010-7-KC

SUBJECT: Child and Adult Care Food Program Analysis of Large Sponsoring Organizations

TO: George A. Braley  
Acting Administrator  
Food and Nutrition Service

ATTN: Director, Grants and Management Division

This report presents the results of the subject audit. The written response, dated December 13, 2001, to the draft report along with other editorial suggestions provided to us have been incorporated into the Findings and Recommendations section of the report where appropriate. The response including editorial suggestions is attached in its entirety as exhibit C as requested by the agency. With the exception of Recommendation No. 4, the reply generally expressed agreement with the recommendations. However, we were unable to accept the management decisions for any of the recommendations contained herein. The Findings and Recommendations section of the report explains those actions necessary for us to consider management decisions on Recommendations Nos. 1 through 5. Generally, we will need to be advised of the specific actions completed or planned and acceptable dates for completing the proposed actions as outlined in the report section OIG Position.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken or planned and the timeframes for accomplishing final action for those recommendations where management decision has not been reached. Please note that the regulation requires management decisions to be reached on all findings and recommendations within 6 months from the date of report issuance.

/s/

RICHARD D. LONG  
Assistant Inspector General  
for Audit

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# EXECUTIVE SUMMARY

## FOOD AND NUTRITION SERVICE CHILD AND ADULT CARE FOOD PROGRAM ANALYSIS OF LARGE SPONSORING ORGANIZATIONS

REPORT NO. 27010-7-KC

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### RESULTS IN BRIEF

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We performed an audit of the Child and Adult Care Food Program (CACFP), as administered by the Food and Nutrition Service (FNS). The audit was directed at analyzing the financial data of large CACFP sponsoring organizations (SO). Specifically, we analyzed payment, provider, and claim data to determine if the SOs had necessary controls within their computer systems over program payments and operations.

Our database analyses for six large CACFP SOs showed that the computer systems appeared to perform basic program functions, such as processing claims, paying providers, and maintaining data records. The systems also appeared to maintain sufficient data to permit monitoring and controlling provider activities. For example, the systems generally maintained extensive provider data including: the provider name, address, license number, payment rates, meals served, licensed capacity, number of children enrolled, and program participation history.

However, our analyses also showed that improvements are needed in the computer system controls over program payments and operations. The systems did not always identify or prevent claims from being paid when it appeared the claims were based on enrollment rather than actual meals served (block claiming). We found indications of block claiming to be common at all six SOs reviewed. We identified provider payments, totaling about \$2,442,600 of \$137,879,800 analyzed where all or part of the claimed amounts were apparently block claims. Our determinations were limited to identification of weaknesses in controls from available SO computerized payment data and we did not determine whether actual overclaims occurred per an understanding with the agency officials during the audit. Also, the computer systems did not always identify questionable claims where providers claimed meals every single day in the month, including weekends and holidays; such as Thanksgiving, Christmas, and New Year's Day. In addition, other controls to prevent erroneous claims

such as claims exceeding the maximum number of meals possible and controls over program operations keyed to dates could be improved.

The computer systems did not identify providers whose participation in the program was minimal and it did not appear that the benefits provided were cost beneficial to the program. We found providers that submitted and were paid on claims for less than \$10 per month. The SOs primarily benefited in these cases because they were paid the same administrative reimbursement (\$42 per provider) as paid for providers that cared for the maximum number of children allowed.

We discussed the results of our database analyses with FNS officials and they generally agreed corrective actions were warranted based on the conditions we had presented. FNS has proposed a rule, dated September 12, 2000, to require additional meal claim reviews. These include monthly meal claim edit checks performed by the SO when preparing its consolidated claim for reimbursement, reconciliation of claims to enrollment and attendance data during on site reviews, and followup household contacts by the SOs.

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## **KEY RECOMMENDATIONS**

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We recommended that FNS (1) require SOs to develop, in consultation with State agencies, those additional system controls and reasonableness tests necessary to improve the accuracy of claims processing and ensure SOs are required to successfully implement them and (2) SOs should monitor the level of participation by providers and encourage providers who consistently submit small claims to increase their level of program participation by serving additional children.

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## **AGENCY RESPONSE**

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FNS officials provided written comments, dated December 13, 2001, to our draft report. The comments noted that field visits were not made during the audit and that while the information presented may be indicative of problems in these SOs' payment systems, some of the comments provided were based on the need for additional information in order to make a valid assessment regarding the existence of such problems. The response also noted that because the audit did not examine SO controls on block claiming, including edits on the claims submitted by providers, it is not possible to know whether these payments were made in error. The written response noted some of the various means of determining if a provider's claim is valid and requested the report clearly state that these payments may not have been made in error and that they represent a discrete portion of the provider claims analyzed.

The written comments included several other requests for clarification and technical comments, which we have addressed as applicable (see exhibit C for the complete response).

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## **OIG POSITION**

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During our audit, we met with FNS officials in April 2001 and briefed them on the results of our computer data base analyses. We informed them that the results were from the survey stage of the audit process and represented only analyses of automated data provided to us by the SOs from their systems at our request. The purpose of the briefing at that stage of the audit was to determine if they agreed with our conclusions from the amount of information gathered to date or whether additional fieldwork needed to be conducted to further develop the identified conditions and convince them that corrective actions were necessary. FNS officials advised us that our work indicated a need to strengthen some internal controls in computer-based systems and that further fieldwork at individual SOs was unnecessary. Based on the review results presented at that time, FNS officials also stated the audit results would provide them reinforcement for the needed program changes in the proposed regulations. At the exit conference, we again discussed the fact that this report contained solely the results of our data base analyses as previously agreed, and FNS officials again reiterated that additional fieldwork was not needed to convince them of the need to strengthen internal controls in computer based systems.

OIG recently concluded another audit which covered one of the large SOs included in this audit. That audit included field visits to this SO's providers. As part of that review, the auditors compared the results of observations at providers' homes with claims the providers submitted to the SO. The auditors concluded 46 percent of the providers reviewed might have claimed reimbursements for ineligible meals for the period reviewed. While not all of these errors were attributed to block claiming, the report included examples of providers claiming substantially more children than observed during the field visit. The report also included examples of providers that had no records of meal counts or attendance and other cases where providers completed meal counts in advance of service for the entire month showing children who were subsequently not present during meal service.

Based on the information contained in the response, we were unable to accept any of the management decisions for the recommendations herein. FNS will need to provide us additional information on actions to achieve management decisions on Recommendations Nos. 1, 2, 3, 4, and 5.

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# INTRODUCTION

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## BACKGROUND

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The Food and Nutrition Service (FNS) administers the food assistance programs of the U.S. Department of Agriculture (USDA).

The Child and Adult Care Food Program (CACFP) was established in 1975 by Public Law 94-105 and is intended to ensure that children who attend day care facilities receive nutritious meals by reimbursing participating nonresidential care facilities, including day care homes and child care centers, for meals served to children in their care. The State agencies (SA) administer the program through sponsoring organizations (SO) and independent centers. These SOs act as liaisons between the SA and participating day care facilities; including child care centers, homeless shelters, adult day care centers, and family day care homes. SOs are ultimately responsible for program operations in those facilities. In December 1999, the CACFP provided meals to 2.6 million children and 63,500 adults. In fiscal year (FY) 2000, USDA reimbursed the participating institutions nearly \$1.7 billion.

Our audit was confined to a review of operations by SOs for family day care homes. A family day care home is an organized nonresidential child care program for children enrolled in a private home, licensed or approved as a family or group day care home under the auspices of a SO. SOs submit consolidated monthly claims to the SA, receive administrative and food service payments from the SA, and disburse food service payments to their providers.

The SOs receive administrative funds for the cost of administering the program. The monthly allowance is based on a sliding scale keyed to the number of day care homes administered by the SO.<sup>1</sup> Reimbursement rates must be reviewed annually and adjusted to reflect changes to the Consumer Price Index as needed. The monthly administrative payment rate for day care homes, as of July 1, 2000, for all States, except Alaska and Hawaii, is shown in the table below (the rates for Alaska and Hawaii are adjusted to reflect higher costs for providing meals in those States). The table illustrates the total monthly reimbursement a SO with 1,001 homes would receive.

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<sup>1</sup> Per Title 7 Code of Federal Regulations (CFR) 226.12(a) payments for administrative costs during a FY are limited to the lesser of actual expenditures for administering the program less income to the program, the costs approved in the budget, reimbursements per the sliding scale, or an amount not to exceed 30 percent of the total of administrative payments and food service payments.



<b>Formula</b>	<b>Rate</b>	<b>No. of Homes</b>	<b>Payment</b>	<b>Total Amount</b>
First 50	\$80	50	\$ 4,000	\$ 4,000
Next 150	\$61	200	\$ 9,150	\$13,150
Next 800	\$48	1,000	\$38,400	\$51,550
Over 1,000	\$42	1,001	\$ 42	\$51,592

The SOs also receive reimbursement for the meals served to children in the day care homes. The SOs in turn reimburse the day care providers for the meals served to participating children. Children<sup>2</sup>, normally age 12 and younger, are eligible to receive up to two meals and one snack each day. Day care homes are not allowed to charge separate fees for meals. Higher payments are made to homes in low-income areas and to low-income day care providers (tier I). Meals and snacks provided to children who meet the eligibility criteria for free and reduced price school meals also receive the higher tier I rates of reimbursement. Lower reimbursement rates (tier II) apply to meals and snacks served to children who do not meet the criteria for tier I. Both tier I and tier II eligible children can be cared for by the same provider. The rates of reimbursement are reviewed annually and adjusted, as needed, to reflect changes in the Consumer Price Index. As of July 1, 2000, the tier 1 and tier II rates in the 48 contiguous States were:

<b>Meal Type</b>	<b>Tier I</b>	<b>Tier II</b>
Breakfast	\$0.94	\$0.35
Lunch or Supper	\$1.72	\$1.04
Snack	\$0.51	\$0.14

The day care providers sign agreements with the SOs and must meet all State licensing requirements where applicable. The agreements and/or licensing requirements specify how the day care homes must operate. Requirements include licensed capacity, meal components, eligibility rules, and numerous other standards for operating a day care home. Providers can be approved to operate shifts as long as the number of children present at any one time does not exceed licensed capacity. For example, a provider could provide breakfasts to school age children who leave the home immediately after eating. Preschool children could then be cared for during the remainder of the day.

The SOs are responsible for training providers in program requirements, monitoring day care home operations, assisting in planning menus, and

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<sup>2</sup> Per 7 CFR 226.2, the term children means persons 12 years of age and under, children of migrant workers 15 years of age and under, and persons with mental or physical handicaps, as defined by the State, enrolled in an institution or child care facility serving a majority of persons 18 years of age and under.

assisting providers in filling out claims for reimbursement. Providers submit claims showing the actual number of meals and snacks served to eligible children each month. The claims must show the children served, days meals were served, and meal count. The SOs compute the reimbursement due for the meals claimed and pay the providers. Providers are allowed to claim meals served to their own children provided they are income eligible and other eligible children are also served at the same time.

Recent OIG audits, investigations, and internal reviews of CACFP operations have raised serious concerns regarding the adequacy of financial and administrative controls within the program. Our audits made a number of recommendations for changes to the current SA and SOs reporting requirements, including requirements that SOs routinely perform certain edit checks on all meal claims submitted by their facilities. FNS generally concurred with these recommendations and initiated actions to improve CACFP management. On September 12, 2000, FNS published a proposed rule at 7 CFR Part 226, entitled Child and Adult Care Food Program; Improving Management and Program Integrity, regarding changes to certain State and SO level institution program monitoring requirements.

<hr/> <b>OBJECTIVES</b> <hr/>	The audit was directed at analyzing the financial data of large CACFP SOs. Specifically, our audit objective was to determine if SOs had necessary controls within their computer systems over program payments and operations.
<hr/> <b>SCOPE</b> <hr/>	There were 29 SOs nationwide that had over 1,000 day care homes and 8 of the 29 SOs had over 2,000 day care homes. The audit covered analyses of the operations and records for six of these large CACFP SOs. We judgmentally selected 6 of the 8 SOs, which had over 2,000 day care homes for review. The size of the SOs' program participation and period for which records were obtained is shown in the following table:

<b>Sponsoring Organization</b>	<b>Period Reviewed</b>	<b>No. of Providers</b>	<b><u>1/</u>Payments on File</b>
Sponsor A	10/98 - 02/00	2,832	\$ 12,537,500
Sponsor B	10/97 - 03/00	6,661	\$ 52,695,500
Sponsor C	10/97 - 03/00	2,608	\$ 14,812,800
Sponsor D	10/98 - 04/00	5,599	\$ 25,561,900
Sponsor E	10/98 - 03/00	2,049	\$ 10,960,500
Sponsor F	10/98 - 07/00	2,786	\$ 21,311,600
Totals		22,535	\$137,879,800

<sup>1/</sup> Amount shown is the total of the reimbursement checks on the computer files and is rounded to the nearest \$100.

We reviewed documentation from the SOs' computer systems used to administer the CACFP. Copies of selected data and records from the computer systems were obtained for analyses. The records obtained consisted of data showing provider information (provider files containing licensing data, types of meals authorized, shifts, etc.), claims records, and check (payment) data. Automated queries were run against the SOs' computer records as part of our audit tests.

We also reviewed copies of independent audit reports on the SOs' operations and SA reviews for the period shown. Pursuant with an understanding reached in April 2001 with FNS officials on the basis of our database analyses results presented to them, we did not conduct further fieldwork or visits to these SOs to test the accuracy of the computerized data furnished by them or evaluate their individual computer system software control features.

The audit was conducted in accordance with government auditing standards.

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## **METHODOLOGY**

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To accomplish our audit objectives, we reviewed records and interviewed officials at the FNS National Office, FNS Regional Offices, SAs, and SOs. We requested copies of computer system documentation from each of the selected SOs. After

reviewing the system documentation, we requested copies of specific data and records for the review period. The data obtained from the SOs was converted into Microsoft ACCESS (database) format for database analyses. Queries were run against the data to identify possible system control weaknesses. We analyzed claims submitted by providers and SO payments by running specific tests to:

- Compare check (payment) dates to provider eligibility dates.
- Compare processing/payment dates to claim month.
- Check for duplicate provider addresses and telephone numbers.
- Identify providers receiving payments of \$1,000 or more.
- Identify small payments.
- Identify checks and/or meal claims for identical amounts to the same provider (block claims).
- Identify any other problems, during the analyses, concerning payments made by the SOs.

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## FINDINGS AND RECOMMENDATIONS

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<b>CHAPTER 1</b>	<b>ENHANCED CONTROLS NEEDED TO LIMIT BLOCK CLAIMS AND IMPROVE PAYMENT ACCURACY</b>
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Based on our database analyses, we concluded that the SOs could make more effective use of the available data by performing periodic analyses of claims and payment data in order to identify SOs needing increased monitoring to better limit cases of block claiming and improve the accuracy of payments to providers.<sup>3</sup> In addition, FNS had not issued guidance that reviewers should include database analyses as part of the review process. Such analyses would be in addition to the existing system controls and would involve querying data records to identify potential problems and errors. We found indications of a practice referred to as block claiming to be common at all six SOs reviewed. We identified provider payments totaling about \$2,442,600 of \$137,879,800 with indications of block claiming.<sup>4</sup> We found that all or part of the claimed amounts, were apparently block claims.

In addition, the computer systems used by SOs to process claims and pay providers did not always identify providers that appeared to have questionable or inaccurate claims. Analyses showed that SOs' computer systems would allow incorrect data to be processed and paid. For example, we found instances where providers appeared to be paid at the wrong payment rate. We also found instances where meal claims were apparently paid in the wrong category (e.g., snacks paid as breakfast). In addition, we found instances where providers' claims exceeded the maximum number of meals possible based on the number of days in the month multiplied by the child enrollment.

Section 226.10(c) of the current regulations requires all institutions to report claims information in accordance with the SA's financial management system and in sufficient detail to justify the amount of reimbursement claimed. However, these regulations establish no specific procedures that SOs must utilize to determine the validity of facility claims or SAs must utilize to determine the validity of institutions' claims.

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<sup>3</sup> Federal regulations state that recipients and subrecipients of Federal funds shall maintain effective control over and accountability for all USDA grant or subgrant funds (7 CFR 3015.61(c)).

<sup>4</sup> The FNS reply to the audit noted that the block claims represented only 1.6 percent of the universe of payments received.

We attributed the payment of block claims and inaccurate claims to a lack of sufficient edit checks in the computer systems. Specific examples are shown in the findings below.

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**FINDING NO. 1**

**AVAILABLE DATA COULD BE  
USED TO LIMIT BLOCK CLAIMING**

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One long-standing problem with CACFP program operations, that has been identified in prior audits and internal program reviews, is a condition known as block claiming. In this scenario, providers submit claims that are not based on actual meals served to eligible children. In some cases, providers may claim

meals based on a head count at the start of the day even though some children may leave, or for some other reason, do not receive all meals and snacks served. Another situation could involve basing claims on enrollment without regard to actual attendance. Based on our database analyses, we identified 363 providers whose meal claims appeared to be block claims rather than actual meal counts. We found indications block claiming was a common practice by providers at all six SOs reviewed. As a result, these 363 providers received reimbursement payments totaling about \$2,442,600 (exhibit A) where all or part of the claimed amounts were apparently block claims.

We identified the potential block claims by running a series of database queries against consolidated claim and payment files. Our determination that claims appeared to be block claims was based on providers claiming identical meal counts for several months. The SOs, SA reviewers, and/or FNS program reviewers could perform the same analyses to identify providers for increased monitoring and thereby, control and limit the amount of block claiming. A description of the queries run and results are shown below. (It should be noted that some providers were identified by more than one of the tests.)

**Query of Identical Check Amounts**

We queried the payment files for each SO to identify any providers who received identical payment amounts during the audit period. The providers' payments were then analyzed to determine the frequency of identical payments and samples were taken of the providers with the highest probability of making block claims (i.e., had a high number of identical payments). This technique consistently identified probable block claiming. For example, the query for Sponsor F produced a list of 426 providers with one or more identical payment amounts. We selected the 5 providers identified who had 10 or more identical payments for analyses. All five of the

providers appeared to be block claiming. One of the provider's claims records showed the following:

Month	Breakfast	Lunch	Snack	Amount
07/00	228	228	228	\$754.73
11/98	240	240	240	\$763.25
01/99	240	240	240	\$763.25
02/99	240	240	240	\$763.25
04/00	235	235	235	\$763.80
05/99	252	252	252	\$801.41
09/99	252	252	252	\$819.05
10/99	252	252	252	\$819.05
11/99	252	252	252	\$819.05
01/00	252	252	252	\$819.05
02/00	252	252	252	\$819.05
04/99	260	260	260	\$826.85
08/99	261	252	252	\$827.96
10/98	264	264	264	\$839.57
12/98	264	264	264	\$839.57
06/99	264	264	264	\$839.57
07/99	264	264	264	\$858.05
06/00	264	264	264	\$858.05
03/99	276	276	276	\$879.39
12/99	276	276	276	\$897.06
03/00	276	276	276	\$897.06
05/00	276	276	276	\$897.06

### Query of Identical Meal Counts

We queried the claims files for each SO to identify providers who claimed identical meal counts during the audit period. The provider's claims were then analyzed to determine the frequency of claims for identical meal counts and samples were taken of the providers with the highest probability of making block claims, (i.e., had a high number of identical meal counts). This technique consistently identified probable block claiming. For example, the query of Sponsor E's data produced a list of 213 providers with one or more identical meal counts for breakfasts, AM snacks, and/or lunches. We selected the 10 providers identified who had 8 or more identical meal counts for analyses. All 10 of the providers appeared to be block claiming. One of the provider's claims records showed the following:

<b>Amount</b>	<b>Month</b>	<b>Breakfast</b>	<b>Am Snack</b>	<b>Lunch</b>	<b>PM Snack</b>	<b>Dinner</b>
\$234.36	06/01/98	0	0	63	63	63
\$261.51	07/01/98	0	0	69	69	69
\$238.77	08/01/98	0	0	63	63	63
\$235.65	09/01/98	0	0	63	60	62
\$248.67	10/01/98	0	0	66	63	66
\$228.50	11/01/98	4	5	57	60	60
\$267.96	12/01/98	21	21	63	63	63
\$255.20	01/01/99	20	20	60	60	60
\$255.20	02/01/99	20	20	60	60	60
\$293.48	03/01/99	23	23	69	69	69
\$275.77	04/01/99	22	22	66	66	63
\$255.20	05/01/99	20	20	60	60	60
\$280.23	06/01/99	22	21	66	66	66
\$272.07	07/01/99	21	21	63	62	62
\$287.32	08/01/99	22	22	66	66	66
\$274.26	09/01/99	21	21	63	63	63
\$274.26	10/01/99	21	21	63	63	63
\$274.26	11/01/99	21	21	63	63	63
\$300.38	12/01/99	23	23	69	69	69
\$274.26	01/01/00	21	21	63	63	63
\$274.26	02/01/00	21	21	63	63	63
\$279.08	03/01/00	8	8	69	69	69

We also reported in a recent audit report<sup>5</sup> covering Sponsor F that 46 percent of the providers reviewed may have claimed reimbursement for ineligible meals. The auditors selected for review a sample including large claims and claims that appeared overly consistent by providers receiving maximum reimbursement by claiming every eligible meal to each child in attendance during the month in review. That audit showed that the number of children observed during the field visits did not correspond to the average number of children recorded by these providers. A subsequent review of providers' claims disclosed that the providers claimed for reimbursement more children than the auditors observed on the day of the visit. For example, at one provider the auditors observed 6 children, although for the month this provider claimed 12 children daily, prior to and subsequent to the auditors' visit.

As shown by these examples, the SOs' computer systems contained sufficient data to effectively identify probable block claiming. Routine analyses of this data, by the SO, would help to limit the amount of block

<sup>5</sup> Audit Report No. 27010-24-SF, dated January 2002.



claiming and improve program integrity. Analyses of provider claims and payments like the ones shown above could be used as a tool to identify providers needing increased monitoring. Providers identified could be counseled concerning the proper preparation of meal claims based on actual meal counts.

In its proposed rule, FNS proposes that SOs be required to perform routine edit checks of monthly claims prior to submitting their consolidated claims to the SA for payment in order to detect and minimize inaccurate or fraudulent meal claims. These edit checks should be part of the SO's automated claims processing system and must (1) verify that the facility has been approved to serve the type of meals claimed, (2) compare the number of children enrolled for care to the number of meals claimed, and (3) detect block claiming. These edit checks are to be performed for every day meals are claimed by a facility. The rule further proposes to require a 5-day reconciliation of claims to enrollment and attendance data which is to be accomplished during onsite reviews and may be followed up with household contacts by the SO. SOs must contact households whenever a facility claims the same number and type of meals served for 10 or more consecutive days or claims an unusually high number of meals for more than 1 day in a claiming period.

Based on these FNS proposals (Sections 226.10(c) and 226.13(b)), we are making no further recommendations herein regarding system controls to routinely analyze provider claims for block claiming and to conduct monitoring visits of identified providers to review their claims.

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**RECOMMENDATION NO. 1**

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Ensure requirements for database analyses of SOs' computer systems similar to the analyses described above are included in review programs for SA and FNS program

reviewers to ascertain that system controls are functioning as intended for those SOs using computer-based claim processing capabilities.

**FNS Response**

The December 13, 2001, response to the official draft report (see exhibit C) indicated that the agency agreed with the recommendation.

The response noted that FNS strongly believed that block claiming is an indicator of a potentially serious problem that warrants further review by the SO to determine the validity of meals claimed by a provider. The response noted that because of the limited audit scope it is not possible to know whether these payments were made in error. FNS noted it had provided

guidance and training to SOs on various means of determining if a providers' claim is valid, including the use of unannounced visits and household contacts to verify attendance. FNS requested that the audit clearly state that these payments may not have been made in error and that the payments represented only a discrete portion (roughly 1.6 percent of the claims analyzed).

### **OIG Position**

The audit results and the extent of fieldwork necessary were discussed on two occasions with FNS officials during our review. Because they expressed a willingness to strengthen controls regarding block claiming based on the review results presented at that time and our understanding that further fieldwork was unnecessary, we concluded our work. Subsequent to our review, an audit<sup>6</sup> of Sponsor F's operations confirmed providers had, in fact, claimed more children for reimbursement than the auditors observed the days of their visits. We continue to believe identification of potential block claiming from ongoing analyses of SO automated payment data with appropriate monitoring followup is an effective step in maintaining integrity of the program. Therefore, our position remains unchanged. Before we can consider the management decision for this recommendation, we need to be provided details of the specific actions to be taken to utilize SO computerized data to verify controls are effective and the dates for implementing the contemplated corrective actions.

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## **FINDING NO. 2**

### **COMPUTER SYSTEMS DID NOT ALWAYS IDENTIFY POTENTIAL PAYMENT ERRORS**

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Computer systems did not always identify potential payment errors. Based on our review, we determined that this occurred because the computer systems or claims processing procedures did not appear to provide for reasonableness checks and accuracy tests. As a result, the SOs did not always have effective controls to ensure the

accuracy of claims and claim computations.

### **Providers Claimed Meals Everyday in the Month**

During our analyses, we identified 62 providers which were paid about \$928,495 on claims where the provider claimed meals for every single day in the month including weekends and holidays, such as Christmas,

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<sup>6</sup> Audit Report No. 27010-24-SF, dated January 2002.

Thanksgiving, and New Year's Day. This was noted at five of six SOs reviewed (excluding Sponsor E).

For Sponsor D, we queried the FY 2000 database and identified 239 claims with payments in excess of \$1,000. In fact, these payments ranged from \$1,000 to \$2,295. We selected a sample of 10 providers for a more detailed review. This involved reviewing all claims submitted by the sample providers. Our review of the claims submitted by one of the 10 sample providers showed the following:

<b>Claim Month</b>	<b>Total Days Meals Served</b>	<b>Check Amount</b>
10/99	31	\$1,065.15
11/99	30	\$1,157.01
12/99	31	\$1,197.34
01/00	31	\$1,141.66
02/00	29	\$1,251.08
03/00	31	\$1,321.91
04/00	30	\$ 646.40

The above provider received a total of \$7,780.55 in meal reimbursements over the 7-month period based on meals served every single day in each month.

The SOs have all of the necessary data in order to perform the same analyses. Such analyses performed on a routine basis could be used to identify providers with potential fraudulent claims. Claims submitted showing meals claimed every single day could be flagged for unannounced visits to verify if such providers are actually serving meals to children, other than their own, every day in the month. Telephone calls or visits with parents could also be used to confirm the days their children were in the provider's care.

#### **Meal Claims Were Either Paid Under the Incorrect Tier or Incorrect Meal Type**

For Sponsor B, there did not appear to be any controls in place to prevent processing claims under the incorrect tier or meal type. During our analyses of this SO, we found two cases where providers were paid under the incorrect tier. This indicates a lack of controls in the system to prevent or detect this type of error. One provider had been reimbursed under tier 1 for all meals claimed from October 1997 through June 1999.

However, the July 1999 claim was paid under tier 2. The remaining claims on file from August 1999 through March 2000 were paid under tier 1. Based on our review of the claims for another provider for Sponsor B, only tier 1 children were served from October 1997 through June 1998, and the provider was paid accordingly. However, the claims for July 1998 through September 1998 were paid under tier 2. The remaining claims on file, which were from July 1999 through March 2000, were all paid under tier 1.

For Sponsor B, we also found one case where a provider received reimbursement in December 1999 for breakfasts. However, according to the claims data from November 1997 through April 2000, the provider did not serve breakfasts. The incorrect payment was generated due to an error by the SO in determining the type of meals served.

### **Claims Exceeded the Maximum Number of Meals Possible**

During our analyses of Sponsors B, C, and F, we found that the computer systems for these SOs did not have controls in place to prevent providers from being paid in excess of the maximum meals possible based on the provider's licensed capacity, shifts, days meals served, and number of days in the month. We identified 23 providers, for these three SOs, that received about \$86,225 in reimbursements that included claims exceeding the maximum possible number of meals for 1 month. This analysis was done by computing the maximum number of meals possible for a 31-day month, 30-day month, and a 28-day month. Also, included in the analysis were the number of children enrolled and the number of days meals were served during the week. For example, a provider at Sponsor B had a total of 16 children enrolled and served meals at various shifts. The provider served meals 7 days per week, for a 30-day month. Therefore, the maximum number of meals by type (breakfasts, lunches, snacks, or suppers) possible for the month would be 480 (30 (number of days in month) times 16 number of children enrolled)). However, a review of the provider's claims data for November 1999 showed that the provider actually claimed 544 breakfasts (an excess of 64 meals if 100 percent of the children were in attendance) and 572 suppers (an excess of 92 meals if 100 percent of the children were in attendance).

We believe that the addition of proper edit checks or controls would detect or prevent such payment errors, improve the accuracy of claims processing, and decrease the need for payment adjustments.

## **Meal Claims Were Duplicated**

During a query of providers, at Sponsor B, with duplicate addresses, we found one instance where the SO paid duplicate claims totaling \$5,217 to two providers. We noted that over a 5-month period two providers, who lived at the same address, filed claims for the same months (November 1997 and January 1998 through April 1998). Our review of the claims data showed that both providers were paid the exact same amounts in claim reimbursements for each of the above months. Further review of the claims data showed that for each of the above months each provider claimed and was paid the exact same amounts for lunches, suppers, and snacks. We believe that this was duplicate claiming. It is possible the providers were claiming the same children or were dividing the headcount for each month (i.e., 20 children were present and each claimed 10) because the claim amounts for each provider were different for all other months.

In its proposed rule, FNS proposed that edit checks must be performed for every day meals are claimed by a facility. At a minimum, these edit checks must (1) verify that the facility has been approved to serve the types of meals claimed, (2) compare the number of children enrolled for care (taking an expected rate of absences into account) to the number of meals claimed, and (3) detect block claiming. Also, the rule proposes each SO must compare daily meal claims against the most recent information on enrollment, licensed capacity, total days of operation, attendance patterns, and authorized meal services for each meal type being claimed on each day of operation and must not include in its claims any meals not properly supported by appropriate documentation. However, the rule does not specify that these SO-conducted comparisons be automated and incorporated into the computer systems where feasible. Furthermore, this proposed rule does not specify other internal computer software controls (edit checks) and/or subsequent automated testing queries of claim data which may be needed, including those queries discussed above, to further improve the accuracy of submitted claims by SOs. Accordingly, additional actions will be needed to develop and tailor those additional internal computer system controls and automated reasonableness tests of SO claim data to further improve the accuracy of their claims.

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### **RECOMMENDATION NO. 2**

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Develop in consultation with SAs those additional system controls and reasonableness tests necessary to improve the accuracy of claims processing and reduce

the number of errors. Ensure SOs are required to successfully implement them.

### **FNS Response**

The written response showed that the agency agreed with the recommendation. The response noted, however, that of the over 22,000 providers reviewed, only 62 were paid for meals claimed every day in the month including weekends and holidays. FNS noted regulations do allow providers to care for children 7 days a week including holidays. However, SOs must ensure the validity of a claim and should have edits in place to flag such claims and determine their validity. Appropriate actions by a SO would include unannounced visits, household contacts, and/or verifying information based on an enrollment form. FNS believed a review of the payment data alone provides no indication as to the extent a SO is reviewing and validating claim information. The response also noted that the two providers might have legitimately changed tier status mid-year.

### **OIG Position**

We concur with the FNS' response regarding the importance of FNS working with the SA's and SO's to ensure the effectiveness of edit checks to identify potential problem cases for additional verification. However, we continue to believe that reviews of computerized payment data does provide evidence whether SO automated and/or other monitoring controls are in place and operating as intended. Also, these analyses would be an effective tool in determining which providers need increased monitoring and/or onsite visits. Before we can consider the management decision for this recommendation, we need to be provided details of the specific actions to be taken, and the date for implementing the contemplated corrective actions.

**CHAPTER 2****SPONSORING ORGANIZATIONS NEED TO  
ENCOURAGE PROVIDERS WITH SMALL CLAIMS TO  
INCREASE THE NUMBER OF CHILDREN SERVED****FINDING NO. 3**

We found that some providers participating in the CACFP, at all six SOs reviewed claimed a minimal number of meals and it did not appear that the benefits provided were cost beneficial to the program. Our database analyses identified 64 providers that consistently received very small reimbursement payments each month. We attributed this to SOs not conducting regular analyses of available payment data to determine the participation level of each provider. As a result, SOs received about \$21,443 in administrative reimbursements from USDA for minimal participation by these sample providers, while program reimbursements or contributions by these 64 providers only totaled about \$7,433 (exhibit B).

We queried the payment data for each SO to identify providers that were receiving small reimbursement payments. Further analyses were conducted to determine the frequency of such small reimbursements. This was done by reviewing all reimbursement payments made to each provider in the query. Due to the large number of providers, queries were limited to certain small amounts. For example, we queried the FY 2000 payment data for Sponsor D and found that 52 payments had been made to providers for less than \$1. Further analyses of these 52 payments showed that a provider had received 6 very small reimbursement payments from October 1999 to April 2000, which ranged from \$.39 to \$7.68. Original claim reimbursement payments to this provider and meals served were as follows:

<b>Claim Month</b>	<b>Breakfast</b>	<b>Lunch</b>	<b>Snack</b>	<b>Amount</b>
10/99	0	0	3	\$ .39
11/99	2	3	5	\$ 4.39
12/99	0	6	6	\$ 6.90
01/00	3	4	4	\$ 5.62
02/00	0	6	12	\$ 7.68
04/00	0	1	2	\$ 1.28

For 6 months, the above provider only served 5 breakfasts, 20 lunches, and 32 snacks. Original claim payments to this provider only totaled \$26.26 for the 6 months of participation. However, payments for

administrative expenses to the SO for this provider totaled \$246 (\$41 multiplied by 6 months of participation).

Based on a limited review, of Sponsor F, our database analyses identified nine providers that consistently received small reimbursement payments. Our analyses, of the FY 2000 data, for one provider disclosed the following payments and meals served during 5 months of participation:

<b>Claim Month</b>	<b>Lunch</b>	<b>Dinner</b>	<b>Snack</b>	<b>Amount</b>
11/99	2	2	2	\$ 4.48
12/99	1	1	1	\$ 2.24
01/00	2	2	2	\$ 4.48
02/00	2	2	8	\$ 5.26
04/00	5	5	5	\$11.20

Note that for the first 3 months of participation, the provider only served 15 meals. Further, review of this provider's records showed that the number of children enrolled in the provider's care varied between one and three during November 1999 through April 2000. Reimbursement payments to this provider totaled \$27.66 from November 1999 to April 2000. However, payments for administrative expenses to the SO for this provider totaled \$205 (\$41 multiplied by 5 months of participation).

In the written response, FNS expressed the opinion that a SO's responsibilities are not diminished by a provider serving a minimal number of meals because the SO's costs would be essentially the same to train, monitor, and process a claim for a home regardless of the number of children served by that home. OIG continues to believe that in instances, such as these two examples, the SO is the main beneficiary because the administrative payments to it far exceed the benefits paid to or provided by the provider.

Although regulations permit providers with minimal participation, such providers should be encouraged to increase their participation in the CACFP because the benefits provided at such low levels do not justify the program cost to provide the meals. The size of the monthly claims indicates that these providers were not serving many children or meals on any given day. Also, providers participating at such low levels represent a potential for program abuse in that they may be serving most or all of the meals to their own children with no non-residential children present.

As demonstrated by the examples above, the SOs' databases contain sufficient data to effectively identify providers that are consistently



participating in the CACFP at a minimal level. A simple query could be used as a tool on a periodic basis to analyze reimbursement payments made to providers. These analyses can be used to determine if providers are making reasonable contributions to the CACFP.

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**RECOMMENDATION NO. 3**

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SOs should monitor the level of participation by providers and encourage those providers who consistently submit small claims to increase their level of program participation by serving additional children. The SOs should assist the providers in developing an outreach program to enroll additional children in the day care homes.

**FNS Response**

The written response noted that current program legislation does not restrict a provider from serving a small number of children. In many cases, there are valid reasons why a provider only cares for a small number of children. Examples would include caring for infants or children with disabilities. The audit showed that a fairly small percentage of providers (0.28 percent) filed small claims. Nevertheless, we do recognize the cost benefit to the CACFP in maximizing the number of children served by participation homes, and we will emphasize this in our contacts with SAs and SOs.

**OIG Position**

We can accept the management decision for this recommendation, when we receive information on the specific actions to be taken along with timeframes for implementation.

**CHAPTER 3****ENHANCED CONTROLS ARE NEEDED TO ENSURE CLAIMS ARE ONLY PAID TO PROVIDERS WHEN THEY ARE ENROLLED IN THE PROGRAM**

Through database analyses, we found that three of the six SOs reviewed needed to implement controls to ensure that program payments are not paid to providers who are not enrolled and/or not eligible to receive payments for certain periods of time. We found payments for claims for meals served before providers' eligibility dates in the program and for meals served during periods the providers were suspended. It appeared that the computer systems did not always control program payments based on date restrictions.

In its proposed rule, FNS proposes that edit checks must be performed by SOs to verify that the facility has been approved to serve the types of meals claimed and SOs compare meal claims against the most recent information on licensed capacity and authorized meal services. However, additional actions will be needed to implement and tailor specific internal computer controls to prevent SO payments to providers before their authorized operational eligibility dates or during periods of suspension.

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**FINDING NO. 4**  
**SPONSORING ORGANIZATIONS**  
**WROTE CHECKS TO PROVIDERS**  
**PRIOR TO THEIR PROGRAM**  
**ELIGIBILITY DATE**

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For two of six SOs reviewed, the computer records showed that SOs wrote reimbursement checks to providers before their program eligibility dates. The computer systems did not have automated controls over participation before the eligibility dates. As a result, 12 providers received \$4,128 in reimbursement payments who, according to the SOs' computer records, were not participating in the program at that time. The computer systems did not appear to control or prevent payment of claims for periods before the program eligibility date recorded in the system.

For Sponsor B, we selected a sample of 17 providers for review who were licensed from February 2000 through June 2000. For the sample providers, we compared the claim months to the eligibility (approval) dates to determine if any claims had been filed before the eligibility dates. Based on our review, we found that 10 of the 17 providers sampled had received reimbursement payments of \$3,724 before their eligibility date. For Sponsor D, we used the same analyses as above for providers who had eligibility dates during FY 2000 and FY 1999. During our review of

this SO, we identified two providers that were paid \$404 before their eligibility dates.

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**RECOMMENDATION NO. 4**

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Ensure SOs implement specific automated controls in their computerized claims systems to prevent payments to providers for meals served before their eligibility dates.

**FNS Response**

In the written response, FNS noted that procedures allow reimbursements in cases where day care homes are renewing their agreements contingent upon compliance with program requirements. The response requested the recommendation be removed unless it is possible to establish that the payments were made in error and requested specific information on each case. The response requested clarification if program eligibility dates referred to the approved dates provided by the SA or the date the providers were entered into the database as approved. For one SO, the SA has extensive site-based edit checks at the SA level, and the dates cited may, in fact, be data entry dates.

**OIG Position**

The automated records for each of the sponsors reviewed had a field in the database that related to the eligibility or start date for the CACFP. We contacted Sponsor B subsequent to receiving the FNS response and we were told that the field “approval date” was now obsolete. The SO official could not explain how the field was used or what the dates in the field represented. She advised that the “contract date” field was currently being used by the system. We determined that had we used the “contract date” instead of the “approval date” for the 17 sample providers, our analyses of both the “approval date” and the “contract date” would have still showed claims and payments prior to those eligibility dates.

We continue to believe the SOs’ systems should have specific fields and edit checks that ensure claims are not paid prior to the first date of eligibility allowed under the regulations. We also believe controls should be in place to verify that a particular day care home can participate and that reviews of the SO should ensure such controls are in place and working as intended. Before we can consider the management decision for this recommendation, we need to be notified as to the specific timeframes for implementation of the recommended automated controls.

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**FINDING NO. 5**

**PROVIDERS WERE PAID DURING  
SUSPENSION PERIODS**

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At Sponsor F, we found that reimbursement payments were made to three providers for meals served during periods when they were suspended from the program. This occurred because the SO's computerized system controls were not sufficient in preventing payments of claims filed by providers who were under program suspension. As a result, these three providers received about \$2,000 in claim reimbursements, which they were not entitled to receive.

From our database analyses, we queried the provider table and identified 689 providers that were on suspension. We then sorted the listing in order to select a sample for review. We selected 59 suspended providers whose suspension dates ended after August 2000. By comparing the claim month for processed claims to the provider's on and off suspension dates, we noted that checks were written for a claim month after the start of the suspension period.

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**RECOMMENDATION NO. 5**

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Ensure SOs implement specific automated controls to ensure that claims are not paid for meals served during periods of provider suspensions.

**FNS Response**

FNS officials noted that recent statutory changes to the CACFP restrict suspension of provider payments to very limited circumstances. The officials stated that due to the very limited circumstances under which suspension is now allowed, this should no longer be an area of noncompliance and requested closure of the recommendation.

**OIG Position**

The correspondence indicates that there will still be potential for some suspensions. Therefore, SOs' automated systems will still need to be able to prevent payments for unauthorized claims by providers under suspension from the program. Accordingly, our position on the recommendation remains unchanged. In order for us to consider the management decision for this recommendation, FNS needs to provide specific actions to be taken to address the recommendation and acceptable timeframes for implementation.

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**EXHIBIT A – SUMMARY OF BLOCK CLAIMS**

SPONSORING ORGANIZATION	NO. OF BLOCK CLAIM PROVIDERS	AMOUNTS PAID TO BLOCK CLAIM PROVIDERS
Sponsor A	78	\$ 334,500
Sponsor B	59	\$ 750,000
Sponsor C	36	\$ 231,000
Sponsor D	71	\$ 377,000
Sponsor E	37	\$ 224,800
Sponsor F	82	\$ 525,300
TOTALS	363	\$2,442,600

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**EXHIBIT B – SUMMARY OF SMALL CLAIMS PROVIDERS**

SPONSORING ORGANIZATION	NO. OF SMALL CLAIMS PROVIDERS	TOTAL PAYMENTS TO PROVIDERS	ADMINISTRATIVE PAYMENTS TO SPONSORING ORGANIZATION
Sponsor A	6	\$ 729.04	\$ 2,296
Sponsor B	11	\$1,131.05	\$ 4,223
Sponsor C	10	\$1,766.56	\$ 4,510
Sponsor D	23	\$1,411.48	\$ 4,592
Sponsor E	5	\$1,199.89	\$ 2,296
Sponsor F	9	\$1,194.94	\$ 3,526
TOTALS	64	\$7,432.96	\$21,443

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## EXHIBIT C – FNS RESPONSE TO THE DRAFT REPORT



United States  
Department of  
Agriculture

DEC 13 2001

Food and  
Nutrition  
Service

**SUBJECT:** Child and Adult Care Food Program Analysis of Large Sponsors, Audit Number 27010-7-KC

3101 Park  
Center Drive  
Alexandria, VA  
22302-1500

**TO:** Dennis J. Gannon  
Regional Inspector General for Audit  
Office of Inspector General

Thank you for addressing the comments that we provided regarding the discussion draft audit report subsequent to the exit conference held on September 27, 2001. We shared the official draft of the subject Child and Adult Care Food Program (CACFP) Office of Inspector General (OIG) audit report with three Food and Nutrition Service regional offices, as the audited sponsors were located in these regions. We have incorporated their comments in this response. We appreciate the opportunity to comment on the official draft audit report and request that this correspondence describing our general concerns with the report, as well as its attachments, be included in the final report. Attachment 1 addresses our response to each of the audit recommendations in the official draft audit report. Attachment 2 identifies page specific comments to the official draft audit report. On December 10, 2001, we faxed to you our request for technical changes to the draft report.

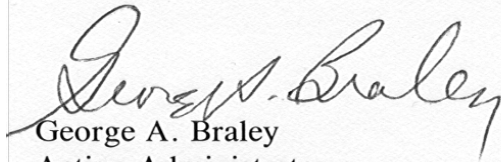
The audit represents an analysis of selected data and records from the computer systems of six large CACFP sponsors. It is noted in the audit on page 4 that no field visits were made to sponsoring organizations to confirm the accuracy of the data tested and that an examination of the accountability practices in place at the sponsor level was not made. Thus, while the information presented may be indicative of problems in these sponsors' payment systems, some of the comments we are providing are based on the need for additional information in order to make a valid assessment regarding the existence of such problems.

The most serious issue raised in the audit is that of block claiming by providers. We strongly believe that block claiming is an indicator of a potentially serious problem that warrants further review by the sponsoring organization to determine the validity of meals claimed by a provider. However, because the audit did not examine sponsoring organization controls on block claiming, including edits on the claims submitted by providers, it is not possible to know whether these payments were made in error. Without supporting information, a block claim is not sufficient grounds for a sponsoring organization to deny reimbursement to a provider. Field visits to the sponsoring organizations would establish if block claiming was identified and if further analysis was conducted to determine if the claims were valid. We have provided guidance and training to sponsoring organizations on various means of determining if a provider's claim is valid, including the use of unannounced visits and household

Page 2

contacts to verify attendance. We are requesting that the audit clearly state that these payments may not have been made in error, and that they represent a discrete portion (roughly 1.6 percent of the provider claims analyzed) of the audit universe. These references are on pages i and 6 of the draft report.

Thank you for the opportunity to provide comments on the official draft report. Please let us know if you have any questions regarding our response.



George A. Braley  
Acting Administrator

Attachments



Attachment 1

**Child and Adult Care Food Program Analysis of Large Sponsors  
Audit Number 27010-7-KC**

Food and Nutrition Service (FNS) Response to Recommendations in the Official Draft  
Audit Report

**Recommendation No. 1:** Ensure requirements for database analysis of sponsors' computer systems similar to the analyses described above are included in review programs for State agency (SA) and Food and Nutrition Service (FNS) program reviewers to ascertain that system controls are functioning as intended for those sponsors using computer-based claim processing capabilities.

**FNS Response:** We agree with the recommendation.

**Recommendation No. 2:** Develop in consultation with SAs those additional system controls and reasonableness tests necessary to improve the accuracy of claims processing and reduce the number of errors. Ensure sponsors are required to successfully implement them.

**FNS Response:** We agree with the recommendation.

**Recommendation No. 3:** Sponsors should monitor the level of participation by providers and encourage those providers who consistently submit small claims to increase their level of program participation by serving additional children. The sponsors should assist the providers in developing an outreach program to enroll additional children in the day care homes.

**FNS Response:** Current Program legislation does not restrict a provider from serving a small number of children. In many cases there are valid reasons why a provider only cares for a small number of children. Examples would include caring for infants or children with disabilities. The audit showed that a fairly small percentage of providers (0.28 percent) filed small claims. Nevertheless, we do recognize the cost benefit to the CACFP in maximizing the number of children served by participating homes, and we will emphasize this in our contacts with State agencies and sponsoring organizations. Therefore, we are requesting closure on this recommendation.

**Recommendation No. 4:** Ensure sponsors implement specific automated controls in their computerized claims systems to prevent payments to providers for meals served before their eligibility dates.

**FNS Response:** We would like to emphasize that FNS Instruction 788-10, Retroactivity of Agreements for the Child Care Food Program, allows State agencies to reimburse sponsoring organizations of family day care homes, which are renewing their

agreements, for meals served during the preceding calendar month in which the agreement is executed. This is contingent upon the sponsoring organization's compliance with Program requirements including the maintenance of records in support of the claim for reimbursement. The intent of this provision is to enable sponsoring organizations to begin reimbursable meal service as soon as possible.

We are requesting that this recommendation be removed from the audit unless it is possible to establish that these payments were made in error. To ascertain whether the payments were made in accordance with FNS Instruction 788-10, we would need to know, for each questioned provider payment, the name of the provider, the name of their sponsoring organization, the date that you have on file as the provider's eligibility date, and the date(s) covered by the reimbursement check.

**Recommendation No. 5:** Ensure sponsors implement specific automated controls to ensure that claims are not paid for meals served during periods of provider suspensions.

**FNS Response:** Suspension of provider payments has been used by some sponsoring organizations in an attempt to achieve Program compliance. However, statutory changes to the CACFP mandated by the Agricultural Risk Protection Act of 2000 (Pub. L. 106-224) restricts suspension of provider payments to very limited circumstances. Due to the very limited circumstances under which suspension is now allowed, this should no longer be an area of noncompliance. Therefore, we are requesting closure on this recommendation.

**Child and Adult Care Food Program Analysis of Large Sponsors  
Audit Number 27010-7-KC**

Page Specific Comments to the Official Draft Audit Report

Page 1, 3<sup>rd</sup> paragraph: The description in this paragraph pertaining to payments of administrative costs for sponsoring organizations of day care homes cites only one of the four factors described under 226.12(a) to determine these payments. The complete requirement at 226.12(a) is as follows: "Sponsoring organizations for day care homes shall receive payments for administrative costs. During any fiscal year, administrative costs payments to a sponsoring organization may not exceed the lesser of (1) actual expenditures for the costs of administering the Program less income to the Program, or (2) the amount of administrative costs approved by the State agency in the sponsoring organization's budget, or (3) the sum of the products obtained by multiplying each month the sponsoring organization's:

- (i) Initial 50 day care homes by 42 dollars;
- (ii) Next 150 day care homes by 32 dollars;
- (iii) Next 800 day care homes by 25 dollars; and (iv) Additional day care homes by 22 dollars.

(4) During any fiscal year, administrative payments to a sponsoring organization may not exceed 30 percent of the total amount of administrative payments and food service payments for day care home operations."

Page 2: "Children" are defined in the draft as "age 12 and younger." 7 CFR 226.2 defines "children" as (a) persons 12 years of age and under, (b) children of migrant workers 15 years of age and under, and (c) persons with mental or physical handicaps, as defined by the State, enrolled in an institution or a child care facility serving a majority of persons 18 years of age and under.

Page 10, Section entitled "Providers Claimed Meals Everyday in the Month": Of the 22,535 providers reviewed, 62 were paid for meals claimed for every day in the month including weekends and holidays. Regulations do allow providers to care for children 7 days a week, including holidays. However, sponsors must ensure the validity of a claim and should have edits in place to flag weekend and holiday meals claimed in order that a determination can be made as to the validity of the claim. Appropriate actions by a sponsoring organization would include unannounced visits, household contacts and/or verifying information based on an enrollment form completed by the parent/guardian indicating the days of the week a child will be in day care. In addition, many sponsors require additional documentation of a parent/guardian in order for a provider to claim meals on a holiday. A review of the payment data alone provides no indication as to the extent a sponsor is reviewing and validating claim information.

Page 11, last paragraph: This finding asserts that the sponsor, ACD, did not have proper controls to prevent processing claims in an incorrect tier category. However, the 2 providers under this sponsorship may have legitimately changed tier status mid-year. It could not be determined if payments were issued at an incorrect tier without having access to the on-site documentation. If payments were issued at the incorrect tier, controls on improving data entry at the sponsor level need to be implemented.

Page 12, 2nd paragraph: The example of a provider under ACD is in need of clarification. By using 16 children, the concept of serving meals to children in shifts needs further explanation. It is suggested that the text be replaced with the following: "For example, a provider at ACD had a total of 16 children enrolled and served meals at various shifts. The provider served meals 7 days per week for a 30-day month. The maximum number of meals, by type (breakfast, lunches, snacks or suppers), possible for the month would be 480 (30 (number of days in month) times 16 (number of children enrolled)). However, a review of the provider's claims data for November 1999 showed that the provider actually claimed 544 breakfast (an excess of 64 meals if 100% of the children were in attendance) and 572 suppers (an excess of 92 meals if 100% of the children were in attendance)."

Page 14, first paragraph: We are requesting that it be clarified that the sponsor's responsibilities are not diminished by a provider serving a minimal number of meals each month. The sponsor's cost would be essentially the same to train, monitor, and process a claim for a home regardless of the number of children served by that home.

Page 17, 3<sup>rd</sup> paragraph: We are unclear about the program eligibility dates referenced in this finding. Please clarify if it is the approval dates provided by the State agency or the dates the providers were entered into the database as approved. Providers should not be reimbursed for meals prior to the date authorized by the State agency. We are questioning the date as the State agency administering the CACFP for one of the sponsoring organizations in question has implemented extensive site-based edit checks at the State level. As we understand it, a provider claim will be rejected at the State office if it includes meals served prior to the start date authorized by the State. It leads us to believe that the "eligibility dates" noted by OIG may, in fact, be data entry dates.

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## ABBREVIATIONS

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CACFP	
Child and Adult Care Food Program.....	1
FNS	
Food and Nutrition Service.....	1
FY	
Fiscal Year.....	1
SA	
State Agency.....	1
SO	
Sponsoring Organization.....	1
USDA	
U.S. Department of Agriculture.....	1

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## GLOSSARY OF TERMS

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### Block Claiming

Block claiming is a method of claiming meals based on enrollment rather than actual meals served (i.e., the same number of breakfasts, lunches, and snacks for a given month). For the purposes of this audit, we considered identical meal claims for several months to constitute block claiming.

### Day Care Home

An organized nonresidential child care program for children enrolled in a private home, licensed or approved as a family or group day care home, and under the auspices of a SO.

### Enrolled Child

A child whose parent or guardian has submitted to an institution a signed document which indicates that the child is enrolled for child care.

### Fiscal Year

A period of 12 calendar months beginning October 1 of any year and ending with September 30 of the following year.

### Sponsoring Organization

A public or nonprofit private organization which is entirely responsible for the administration of the food program in: (a) one or more day care homes, (b) a child care center, outside-school-hours care centers, or adult day care center which is a legally distinct entity from the SO, (c) two or more child care centers, outside-school-hours care centers, or adult care centers, or (d) any combination of child care centers, adult day care centers, day care homes, and outside-school-hours care centers. Also, a for-profit organization which is entirely responsible for administration of the Program in any combination of two or more child care centers, adult day care centers and outside-school-hours care centers which are part of the same legal entity as the SO, and which are proprietary title XIX or XX centers.

### State Agency

The State educational agency or any other State agency that has been designated by the Governor or other appropriate executive, or by the legislative authority of the State, and has been approved by the Department to administer the Program within the State or in States in which FNS administers the Program.

### Tier I Day Care Home

A day care home that is (a) operated by a provider whose household meets the income standards for free or reduced price meals, as determined by the SO based on a completed free and reduced price application, and whose income is verified by the SO of the home, (b) located in an area served by a school enrolling elementary students in which at least 50 percent of the total number of children enrolled are certified eligible to receive free or reduced price meals, or (c) located in a geographic area, as defined by FNS based on

census data, in which at least 50 percent of the children residing in the area are members of households which meet the income standards for free or reduced-price meals.

**Tier II Day Care Home**

A day care home that does not meet the criteria for a tier I day care home.